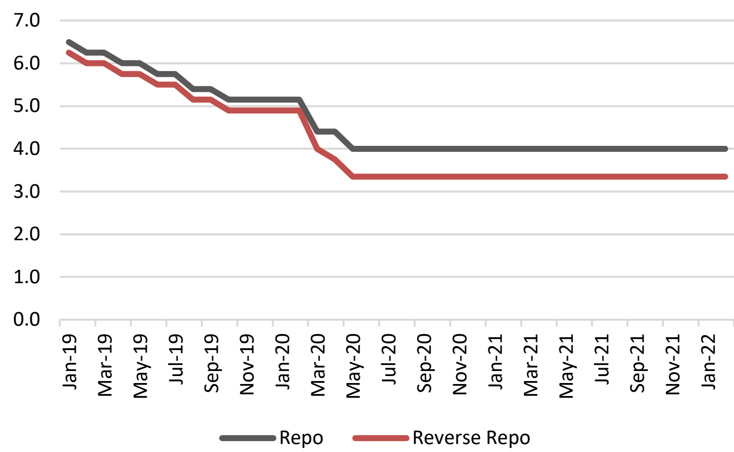
Fact Sheet: Monetary Policy February 2022

Volume XXII, Issue 3

RBI leaves repo rate unchanged, maintains accommodative stance

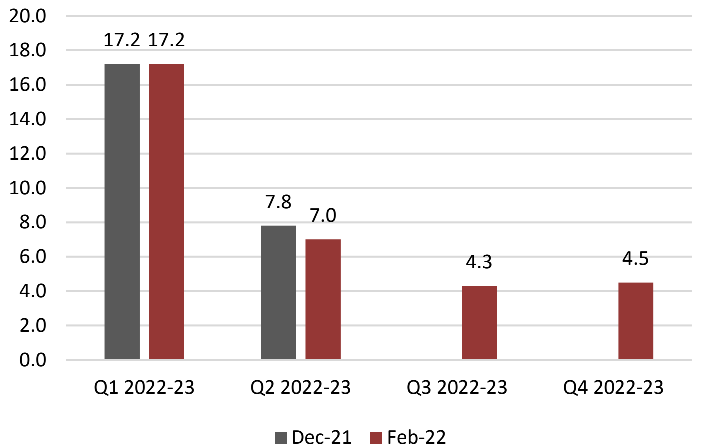
- Policy repo rate under the liquidity adjustment facility (LAF) unchanged at 4.0 per cent
- Reverse repo rate under the liquidity adjustment facility (LAF) unchanged at 3.35 per cent
- Marginal Standing Facility (MSF) rate and the Bank Rate unchanged at 4.25 per cent
- The Monetary Policy Committee decided to continue with an accommodative stance for as long as necessary to revive and sustain growth on a durable basis, while ensuring that inflation remains within the target going forward

Repo and Reverse Repo Rates



Reserve Bank of India's Guidance on Growth

RBI Forecast: Gross Domestic Product (in %)



<u>RBI projects a GDP growth estimate of 7.8% for 2022-23</u>

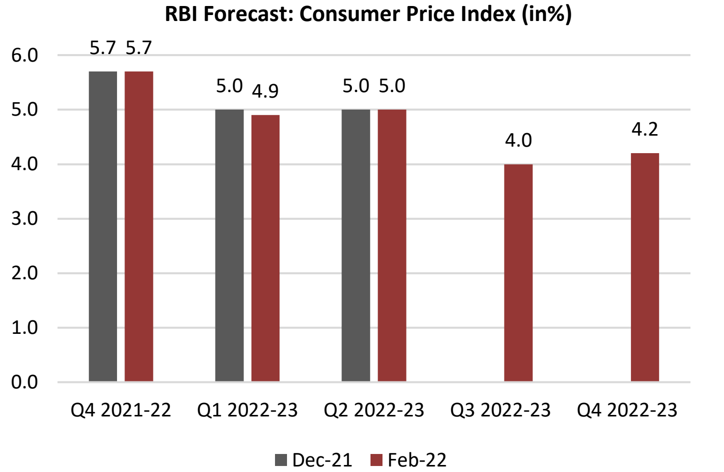
Central Bank's assessment indicates that even though the impact of the third wave on economic activity has been limited, consumption levels and contact intensive services continue to tread below pre pandemic levels. Economic activity is yet to broad base. While on the upsides outlook for rabi crop, pickup in nonfood credit, supportive monetary and liquidity conditions, buoyancy in exports, improving capacity utilization, boost to public infrastructure in the Union Budget 2022-23 - all augur well for growth prospects; nonetheless downside risks continue to remain on fore. The latter could arise primarily on account of global financial market volatility, rising international commodity prices especially crude oil, and persisting global supply-side disruptions

Reserve Bank of India's Guidance on Inflation

<u>RBI retains CPI projection for 2021-22 at 5.3% and forecasts inflation rate at 4.5% for 2022-23</u>

On the upside, vegetables prices are expected to ease on fresh winter crop arrivals and pulses and edible oil prices are likely to soften on back of supply-side interventions by the Government and increase in domestic production. However, the Central Bank pointed out that adverse base effect is likely to prevent a substantial easing of food inflation in January. Also, uncertainty around crude oil prices remains. Cost-push pressures on core inflation are likely to continue in near term, the Central Bank surveys point to some softening in the pace of increase in selling prices by the manufacturing and services firms going forward. Inflation is likely to moderate in H1:2022-23 and move closer to the target rate thereafter.

RBI Forecast: Consumer Price Index (in%)



Source: RBI's Monetary Policy Statement, February 10, 2022

Dec-21 - December 2021 MP announcement
Feb-22 – February 2022 MP announcement

Developmental & Regulatory Announcements

Liquidity Measures

Extension of Term Liquidity Facility of ₹50,000 crore to Emergency Health Services

On May 5, 2021, an on-tap liquidity window of ₹50,000 crore at the repo rate with tenors of up to three years was announced to boost provision of immediate liquidity for ramping up COVID-19 related healthcare infrastructure and services in the country. Banks were incentivised for quick delivery of credit under the scheme through extension of priority sector classification to such lending up to March 31, 2022. In view of the response to the scheme, this window has been extended up to June 30, 2022, from March 31, 2022 as announced earlier.

Extension of On-tap Liquidity Window for Contact-intensive Sectors

On June 4, 2021, it was decided to open a separate liquidity window of ₹15,000 crore at the repo rate with tenors of up to three years available till March 31, 2022 for certain contact-intensive sectors. By way of an incentive, such banks were eligible to park their surplus liquidity up to the size of the COVID-19 loan book, created under this scheme with the RBI. In view of the response to the scheme, this window has been extended up to June 30, 2022.

Financial Markets

Voluntary Retention Route (VRR) – Enhancement of Limits

The Voluntary Retention Route (VRR) for investment in government and corporate debt securities by Foreign Portfolio Investors (FPIs) was introduced on March 01, 2019 with a view to facilitating stable investments in debt instruments issued in the country. The Route sought to provide a separate channel, broadly free of macroprudential controls, to FPIs with long-term investment horizons. A dedicated investment limit of ₹1,50,000 crore was set for investments under the VRR. Given the positive response to the VRR as evident from the near exhaustion of the current limit, the investment limit under VRR has been increased by ₹1,00,000 crore to ₹2,50,000 crore with effect from April 1, 2022.

Review of Credit Default Swaps (CDS) Guidelines

Guidelines for Credit Default Swaps (CDS) were last issued in January 2013. Given the importance of the CDS market for the development of a liquid market for corporate bonds, especially for the bonds of lower rated issuers, it was announced in the Statement on Developmental and Regulatory Policies of December 4, 2020 that these guidelines would be reviewed. Accordingly, draft guidelines were issued on 3 February 16, 2021 for public consultation. Taking into account the feedback received, the final Directions are being issued by the RBI on February 10, 2022.

Permitting Banks to Deal in offshore Foreign Currency Settled Rupee Derivatives Market

Banks in India have already been permitted to offer Rupee interest rate derivatives such as overnight indexed swaps (OIS) to non-residents. Now it has been decided to allow banks in India to undertake transactions in the offshore Foreign Currency Settled-Overnight Indexed Swap (FCS-OIS) market with non-residents and other market makers. This will reduce the segmentation between the onshore and offshore markets, enable more efficient price discovery and further deepen the interest rate derivatives market in India.

Payment & Settlement Systems

Enhancement of the Cap under e-RUPI (Prepaid digital Vouchers using UPI)

The e-RUPI pre-paid digital voucher developed by the NPCI was launched in August 2021. The single use cashless payment voucher has a cap of ₹10,000. It is now proposed to increase the cap of e-RUPI vouchers issued by the Central 9 government and State governments from ₹10,000 to ₹1,00,000 per voucher and permit such e-RUPI vouchers to be used more than once (until the amount of the voucher is completely redeemed). This will further facilitate the delivery of various government schemes to the beneficiaries more efficiently.

Source: RBI's Monetary Policy Statement, February 10, 2022

Enabling Better Infrastructure for MSME Receivables Financing – Increasing NACH Mandate Limit for TReDS Settlements

The Trade Receivables Discounting System (TReDS) facilitates the financing of trade receivables of Micro, Small and Medium Enterprises (MSMEs). Transactions in TReDS are settled through the National Automated Clearing House (NACH) system. Keeping in view the requests received from stakeholders and to further enhance the ease of financing the growing liquidity requirements of MSMEs, it is proposed to increase the NACH mandate limit from ₹1 crore at present to ₹3 crore for TReDS related settlements.

Regulation and Supervision

Master Direction (MD) on IT Outsourcing and Master Direction (MD) on Information Technology Governance, Risk, Controls and Assurance Practices

Extensive outsourcing of critical IT services, leveraging of technology by the Regulated Entities of RBI and increasing use of digital channels by customers expose the Regulated Entities to significant financial, operational and reputational risks. A need was, therefore, felt to review and consolidate the extant guidelines. Accordingly, two draft directions are being issued for comments of stakeholders and members of the public: (i) Reserve Bank of India (IT Outsourcing) Directions, 2022; and (ii) Reserve Bank of India (Information Technology Governance, Risk, Controls and Assurance Practices) Directions, 2022.

FICCI's Comments

The Reserve Bank of India continued maintaining an accommodative stance reiterating that protecting lives and livelihoods remains a clear priority amidst the current circumstances. Even as the Governor indicated steps towards a progressive return to normalcy in liquidity management, the emphasis laid on warranting policy support until a broad-based durable recovery finds its way is encouraging.

Uncertainty continues to remain on fore on account of global and domestic factors with underlying threat of the pandemic still not fully mitigated. The Central Bank has put across a GDP growth estimate of 7.8% for the year 2022-23. The RBI has also assessed some improvement in capacity utilization levels in its surveys. However, the overall demand in the economy remains weak and is yet to touch pre-pandemic levels. In the last Union Budget, the government has given a lot of focus on capex led growth in the economy. This would help boost demand, improve capacity utilization levels, and generate more employment, which in turn would lead to greater demand. We need such a virtuous growth cycle and hope that RBI will work in close coordination with the government to ensure this.

FICCI is happy to note the extension of on-tap liquidity window for emergency health care services and contact intensive services till June 30, 2022, from March 31, 2022, as announced earlier. The contact-based services have been most severely hit by the recurring waves of the pandemic making a move to sustained recovery extremely difficult for the sector.

Also, the enhancement of the cap under e-RUPI vouchers issued by the Central government and State governments to ₹1,00,000 per voucher from ₹10,000 indicates continued emphasis on digitization to assure better governance.